



DRAFT

PSC Progress Report, 2008

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I. Introduction

1. This progress report of the INTOSAI Professional Standards Committee (PSC) describes the overall achievements of the PSC, following the INCOSAI in November 2007 in Mexico. It will be discussed at the PSC Steering Committee meeting in Beijing, 21-23 October 2008 and subsequently adjusted and presented to the INTOSAI Governing Board for approval at their meeting on November 13-14, 2008 in Vienna, Austria.

2. According to the strategic plan of INTOSAI, the purpose of the PSC is to contribute to the development and adoption of appropriate and effective professional standards. This means that the PSC recognizes, utilizes and builds on standards issued by other standard setters to the maximum extent possible and appropriate.

II. PSC strategic goals – progress 2008

3. Within the realms of the strategic plan of INTOSAI and the mandate given to the PSC at the INCOSAI 2007, the PSC will in the years up to the Congress in 2010 focus on:

- The elaboration of ISSAIs and INTOSAI GOVs.
- The elaboration of a proposal for a permanent structure for the maintenance of the ISSAIs and INTOSAI GOVs beyond 2010.
- The continued partnership with other standard setters.

4. These focus areas have been converted into nine strategic goals to be achieved by the PSC in the years 2007-2010. These goals guide the work of the PSC in the period and progress made on the individual goals are summarized in the table below.

5. As the table demonstrates, the PSC has at present addressed all the strategic goals and expects to fulfill all goals up to the INCOSAI in 2010. The strategic goals 1-6 are linked directly to the work of the PSC Subcommittees and Projects, and progress on the individual strategic goals is described further under their separate chapter in this report.

6. Chapter 10 lists the documents that the PSC ask the Governing Board to approve. The motion to the Governing Board from the PSC is also included in chapter 10.

7. In annex 3 is an updated workplan for the PSC and in annex 2 are the ISSAIs and INTOSAI GOVs that are to be approved by the INTOSAI Governing Board.

Table 1: PSC strategic goals – progress 2008

Strategic goals 2010	Progress made 2008
1. Present a set of principles of Transparency and Accountability for approval (ISSAI 20+21).	A draft set of principles of Transparency and Accountability will be presented to the INTOSAI Governing Board, November 2008 for approval.
2. Present a set of principles on audit quality control of SAIs (ISSAI 40).	Terms of reference for the PSC project will be presented to the INTOSAI Governing Board, November 2008 for approval.
3. Present a comprehensive set of implementation guidelines on financial audit (ISSAI 1000-2999) that are to the furthest extent possible and appropriate based on the International Auditing Standards (ISA) issued by The International Federation of Accountants (IFAC) and contain practice notes and supplementary guidance on issues of special importance to SAIs.	<p>The PSC Financial Audit Guidelines Subcommittee will present a comprehensive set of implementation guidelines to the INTOSAI Governing Board in 2009.</p> <p>During the later stage of 2008 the work on developing Practice Notes to ISAs have been increased and the FAS expects to present all the planned ISSAIs to the Governing Board in 2009.</p>
4. Present a comprehensive set of implementation guidelines on performance audit (ISSAI 3000-3999). In addition to the existing performance audit guidelines (ISSAI 3000), the committee will consider guidelines for "smaller scale" performance audit tasks, e.g. audits of performance statements.	The PSC Performance Audit Subcommittee has decided to elaborate a set of standards for performance audit, based on the current ISSAI 3000 and a set of guidelines on how to establish a sustainable performance auditing function within our SAI. A first content of the documents will be presented to the INTOSAI Governing Board in 2008 for approval.
5. Present a comprehensive set of implementation guidelines on compliance audit (ISSAI 4000-4999) meeting the needs of the various tasks of SAIs, taking consideration of the differences in their legal status and mandate.	A draft comprehensive set of implementation guidelines on compliance audit will be presented to the INTOSAI Governing Board in 2008 for approval.
6. Continue to provide and promote INTOSAI guidance for Good Governance (INTOSAI GOV).	<p>The Subcommittee on Internal Control Standards has cooperated with the IIA on two draft papers on:</p> <ul style="list-style-type: none"> a. Internal Auditor Independence in the Public Sector b. Co-operation and co-ordination between internal auditors and SAIs in the public sector <p>The new Chairman of the Subcommittee on Accounting and Reporting is currently elaborating a work plan for the period 2008-2010.</p>

Strategic goals 2010	Progress made 2008
7. Continuously make all relevant documents accessible at www.issai.org in a user-friendly format. This task is carried out in close cooperation with the goal liaison and working groups of goal 3, the Capacity Building Committee and INTOSAI's General Secretariat.	All ISSAIs and INTOSAI GOVs are displayed at www.issai.org . At the Steering Committee meeting in Beijing, October 2008, a due process paper on the development of ISSAIs and INTOSAI GOVs was discussed.
8. Present a proposal for a permanent structure and mandate for the continuous updating and improvement of the ISSAIs and INTOSAI GOVs that is to be effective from 2010 following the approval of the XX th INCOSAI.	A first draft proposal for the organization of the PSC beyond 2010, including work on the ISSAIs and INTOSAI GOVs is attached to this report in annex 1 and will be presented to the INTOSAI Governing Board 2008 for approval.
9. Continue partnerships with other external standard setters in order to facilitate knowledge sharing and cooperation.	The PSC is constantly seeking to maintain and expand the partnerships with other standard-setting organizations. At present the PSC has signed memorandums of understanding with the International Federation of Accountants (IFAC) and the Institute of Internal Auditors (IIA).

8. On the strategic goal 7; continuously make all relevant documents accessible at www.issai.org in a user-friendly format, the ISSAIs and INTOSAI GOVs are made available at the www.issai.org. A process for publication of ISSAIs and INTOSAI GOVs has been decided by the PSC Steering Committee at their meeting in Beijing, October 21-22, 2008.

9. At the PSC Steering Committee meeting in Beijing October, 2008 a first draft proposal on a due process for the development of ISSAIs and INTOSAI GOVs was discussed and will be forwarded to all PSC Subcommittees for further discussion. The draft proposal will also be presented to the Steering Committees of the strategic goals 2 and 3 of the INTOSAI strategic plan.

10. In 2008, following the INCOSAI, the PSC has focused on its main task – being able to present a comprehensive set of ISSAIs and INTOSAI GOVs to the Congress in 2010. By 2010, the PSC will move from a phase of development to a phase of maintenance. This affects however, the work on the ISSAIs and INTOSAI GOVs beyond 2010.

11. In accordance with the mandate and the strategic goal 8, the PSC therefore presents to the INTOSAI Governing Board a first draft proposal on the organization of the PSC beyond 2010, including the updating and development of the ISSAIs and INTOSAI GOVs. The proposal is attached to this report in annex 1. The proposal includes an annex for the permanent set-up of the FAS secretariat.

12. Regarding the strategic goal 9, the PSC cooperates with other standard-setting boards, primarily the International Federation of Accountants (IFAC) and the Institute of Internal Auditors (IIA). This cooperation is of great importance to the PSC, as the dual approach of the PSC states that the PSC should recognize, utilize and build on standards issued by other standard setting bodies to the maximum extent possible and appropriate.

Via PSC, INTOSAI is represented on the following international standard-setting boards:

- **International Auditing and Assurance Standards Board (IAASB):**
Former Auditor General of Sweden, Mr. Kjell Larsson
- **International Public Sector Standards Board (IPSASB):**
Chair of the PSC Subcommittee on Accounting and Reporting, Ms Sheila Fraser
- **Internal Audit Standards Governance Board (IASGB):**
Chair of the PSC, Mr. Henrik Otbo.

13. Besides the strategic goals described above, the PSC has also in the period since the INCOSAI participated in the talks between INTOSAI and different donors on a Trustfund for SAIs.

14. The PSC Chair also participate in the Task-Force for the updating of the strategic plan.

III. PSC Project on Transparency & Accountability **(Ad item 4 on the draft agenda)**

- I. According to the INTOSAI Strategic plan 2005-2010, one of the strategies pursued under Goal 1 is to develop accountability and transparency principles.
- II. A project group, chaired at the time by the SAI of Belgium, elaborated a discussion paper that was submitted to the PSC steering committee in Washington (2006). The chair of the group was then handed over to the SAI of France (Cour des comptes).
- III. During its meeting in Mexico in 2006, the INTOSAI's Governing Board confirmed the mission of the ad-hoc working group on «Transparency and accountability»:
 - to define principles that will help SAIs to be accountable of their activities, report on the impact of their audits and to satisfy to the same requirements that SAIs themselves strive to promote in public management.
 - to identify and publicize good practices
- IV. The PSC meeting in Bahrein (April 2007) assigned to the group the mission to “present a set of principles of transparency and accountability for approval. After being approved by the congress in 2010, these principles are due to become ISSAI 20.
- V. The chair launched a review of annual reports and websites. The analysis of 23 annual reports led to define main areas of accountability and transparency:
 - SAIs’ mandates and responsibilities, missions and strategies;
 - Audit standards and methods;
 - Management and finance;
 - Ethics;
 - reporting on activities.

A first draft was presented at INCOSAI 2007.

- VI. The group is now composed with Belgium, Canada, Denmark, France, Israel, Morocco, Portugal and USA. South Africa also joined the group as the questions raised by the methodology of performance reviews should be part of the program of INCOSAI 2010 that will be held in Johannesburg.
- VII. During its meeting (Paris in February 2008 and in Copenhagen in May 2008) the group drafted two documents.

The first one, after defining the concept of transparency and accountability, presents nine principles:

1. SAIs perform their duties under a legal framework that provides for accountability and transparency.
2. SAIs make their mandate, responsibilities, mission and strategy public.
3. The SAI adopts audit standards, processes and methods that are objective and transparent.
4. SAIs apply high standards of integrity and ethics for staff of all levels.
5. SAIs ensure that these accountability and transparency principles are not compromised through outsourcing activities.

6. The SAI manages its operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters.
7. SAIs report publicly on the results of their audits and on their conclusions regarding overall government activities.
8. SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means.
9. SAIs make use of external and independent advice to enhance the quality and credibility of their work.

The second document (that the group called ISSAI 21) shows examples of best practices in the field.

VIII. In June, the drafts were circulated within the PSC steering committee members and the comments received will be considered and inserted in the drafts during a meeting of a core group that will take place in Bruxelles on October, 10th.

IX. The exposure drafts (ISSAI 20 and ISSAI 21) will be presented to the PSC steering committee during its Beijing meeting.

IV. PSC Project on Audit Quality Control

(Ad item 4 on the draft agenda)

At the PSC Steering Committee meeting in Bahrain in April 2007, the Steering Committee approved the establishment of a new project on audit quality under level 2 of the Framework of INTOSAI's standards and guidelines.

The draft minutes of the Steering Committee's consideration of this matter in Bahrain are as follows:

"The steering committee approved of the proposed draft with the amendment that ISSAIs on audit quality control should be included under level 2.

A new project was established and given the task of drafting a proposal for new ISSAIs on audit quality control for endorsement by 2010. The numbers ISSAI 40-49 was designated to the purpose. The ISSAIs should apply to financial auditing, compliance auditing and performance auditing and be applicable by all types of SAIs (including courts) for all auditing and reporting purposes, including yearly audits for the purpose of issuing declarations as well as more extensive audit examinations for the purpose of issuing special reports to parliament. The project should coordinate with FAS, CAS and PAS in order to ensure clarity in relation to existing and future auditing guidelines. Following the "dual approach"¹, the project should consider the possibilities of building on material from other standard setting bodies, including e.g. the ISQC, and consider whether this should take the form of a permanent cooperation as the ones established in the field of financial auditing guidelines and internal control. The SAI of New Zealand will chair the project."

As you may be aware, level 2 of the Framework is entitled "Prerequisites for the functioning of SAIs".

You may recall that the Steering Committee reached this decision after discussing the distinction between quality control aspects at the SAI level (which the Committee saw belonging in level 2 of the ISSAI Framework) and quality control aspects of individual financial audits, performance audits and compliance audits (which the Committee saw as belonging in the appropriate section within level 4 of the ISSAI framework). This distinction is based on the ISSAI classification principles – a similar distinction is drawn by the International Auditing and Assurance Standards Board (IAASB) of IFAC which separates higher level organisational quality control aspects (captured in ISQC1) from detailed quality control over individual financial audit assignments (captured in ISA 220).

It should be noted that the subcommittee developing the Financial Audit Guidelines (FAS) has already developed a practice note based on ISA 220 – Quality Control for audits of historical financial information. This practice note has been endorsed by the INCOSAI. Also, the

¹ The 'dual approach' refers to a decision the PSC Steering Committee made in 2006 to base INTOSAI guidelines on standards that are widely recognised among SAIs, developing complementary guidance where there is a special need and/or a pressing concern in the SAI environment. In doing so, the PSC will look to eliminate any duplication within the framework of INTOSAI's professional standards.

subcommittee developing the Compliance Audit Guidelines (CAS) has incorporated the issue of quality control within the draft guidance that has been developed.

The INCOSAI in Mexico City in November 2007 endorsed the establishment of a new project on audit quality, to complement existing material in level 2 of the ISSAI framework, based on the following high level work plan:

Extract from the PSC work plan 2007-2010

ISSAI	Work plan for PSC 2007-2010			
		Governing Board November 2008	Governing Board November 2009	INCOSAI 2010
Quality control				
[ISSAI 40-49]	Establish a project to: <ul style="list-style-type: none"> consider the possibility of providing guidance for SAIs on quality control based on IAASB's ISQCs and other relevant materials widely used by SAIs. upon approval of the Governing Board extend the cooperation with IAASB established on financial auditing guidelines to also cover guidelines on quality control of other auditing work performed by SAIs. identify the needs of the SAIs on specific guidance for the public sector and develop the appropriate guidance. 	Approval of project terms of reference.	Consideration of key principles in draft guidelines.	Endorsement of any new guidelines.

The initial target of the project team is to achieve approval of the Terms of Reference by the INTOSAI Governing Board at its November 2008 meeting. However, our more substantive target is approval at the next INCOSAI in 2010 of the new guidelines on audit quality (based on our work over the next 2 years).

The project team has prepared a draft of the Terms of Reference for this project (refer to attachment 1 to this memo). The draft Terms of Reference have been updated to incorporate the feedback received from PSC Steering Committee members.

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A. Draft terms of reference for the PSC project on audit quality

Introduction

15. At the fourth meeting of the Steering Committee of the INTOSAI Professional Standards Committee (PSC) 23-24 April, 2007 in Bahrain, the delegates discussed guidelines for audit quality. There was a general agreement that guidance for audit quality is of central importance to all SAIs and that INTOSAI would benefit from a comprehensive set of guidelines on audit quality for public sector auditing. The guidelines should apply at an overall SAI level and should therefore be included at level 2 in the INTOSAI framework for standards and guidelines ("Prerequisites for the functioning of SAIs").

16. The Steering Committee of the PSC therefore decided to establish a project on audit quality.

Purpose

17. The purpose of the project is to formulate an overall code for audit quality within SAIs. The code will be presented to the INCOSAI 2010 for endorsement as ISSAI 40. Any accompanying documents may be numbered 41-49. The guidance should apply to all the work carried out by SAIs, including financial audits, compliance audits and performance audits. Moreover, they should be applicable by all types of SAIs – also courts – for any auditing and reporting purpose. These include yearly audits resulting in the issuing of declarations and more extensive audit examinations, carried out for the purpose of issuing special reports to Parliament.

18. The project should coordinate with the PSC Financial Audit Subcommittee (FAS), the PSC Compliance Audit Subcommittee (CAS) and the PSC Performance Audit Subcommittee (PAS) in order to ensure clarity in relation to existing and future auditing guidelines. In this respect it is acknowledged that the FAS has already developed a practice note based on ISA 220 – Quality Control for audits of historical financial information and the draft compliance audit guidelines developed by CAS also discuss the issue of quality control.

19. The intention of the project is to develop complementary guidance to that developed by FAS, CAS and PAS by focussing primarily on those organisational aspects of audit quality that operate across the SAI rather than focussing on aspects of audit quality at an individual engagement level (i.e. an individual financial audit, compliance audit or performance audit). The project should also avoid any unnecessary duplication or overlap with ISSAI 100, 200, 300 and 400.

The PSC's mandate states that the PSC will:

- work to harmonize public sector audit internationally by recognizing, utilizing and building on standards issued by other standard setting bodies and developing supplementary guidance in areas where SAIs have special needs. (In doing so, the PSC will look to eliminate any duplication within the framework of INTOSAI's professional standards);
- give high priority to ensuring clear and user-friendly guidance on the special role of SAIs and particular features of public sector auditing – following the principle that where the

tasks are the same, the standards should be the same, where the tasks differ, the standards should differ.

20. Following this "dual approach", the project should look to build on, and where appropriate broaden, material from other standard setting bodies, including ISQC 1 issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC. Furthermore, it should be considered whether the project team can benefit from the relationships which have been established between the PSC Steering Committee and the IAASB in the field of financial auditing guidelines and with the IIA in the field of internal control.

Membership

21. Greg Schollum from the SAI of New Zealand was appointed chair of the project. Furthermore the PSC Subcommittees on financial audit, performance audit and compliance audit were asked to nominate members to the project. The Subcommittees appointed the following members: Ms. Therese Johnsen from the SAI of Norway – representing PAS, Mr. Jesús Lazaro Cuenca from the European Court of Auditors and Andrew Baigent from the NAO – representing FAS and Mr. A. K. Thakur from the SAI of India – representing CAS.

Where it is considered appropriate by the project team, INTOSAI experts may be requested to provide input to the work of the project.

PSC projects

22. According to the PSC Terms of Reference, projects can be launched by the PSC Steering Committee and the Subcommittees. Projects are managed by only a few SAIs. Generally speaking, the responsibility for a project is entrusted to one committee member, who reports directly to the PSC Chair or Subcommittee Chair depending on who launched the project. In general a project will be time limited. The Chairman of the project team will assume overall responsibility for the project and will be a member of the Steering Committee for as long as the project runs.

In all respects, the project on audit quality should be seen as a project of the PSC Steering Committee.

Business of the project

23. The working language of the project is English.

24. The project team will endeavour to conduct its business electronically, but will also utilise face to face meetings as required.

25. All costs, including those related to participation in meetings are borne by the respective SAI. Direct meeting expenses alone are covered by the hosting SAI.

26. Project team members are expected to have sufficient time available to contribute actively to the project.

V. PSC Financial Audit Guidelines Subcommittee **(Ad item 4 on the draft agenda)**

In 2007 INCOSAI confirmed that the aim of the INTOSAI Financial Audit Guidelines Subcommittee (FAS) is to present a comprehensive set of guidelines to be incorporated in the INTOSAI Financial Audit Guidelines (ISSAI 1000-2999) by 2010.

The purpose is formulated in the FAS strategy:

“To develop high quality guidelines that are globally accepted for the audit of financial statements in the public sector by making use of the best resources from the INTOSAI members and by leveraging the expertise and resources of the IAASB, an internationally respected auditing standards setting organization, for a strategic and cooperative partnership”.

The subcommittee will in 2007-2010:

Continue to incorporate public sector considerations in the ISAs by:

- Participating as members in IAASB task forces to write audit standards on current and future projects
- Writing comment letters on ISA exposure drafts where INTOSAI has not provided any input to the IAASB task force

Continue to provide guidance above and beyond what is provided in the ISA for public sector audits by:

- Drafting Practice Notes for all ISAs in order to provide special considerations for the public sector
- Drafting additional guidance to deal with the specific considerations of the public sector which together with ISAs and PNs will form the INTOSAI Financial Audit Guidelines

Progress to date

Since the 2007 Congress, FAS has focused on evaluation of work processes and on the continued production of ISSAIs. During the later stage of 2008 the work on developing Practice Notes to ISAs has increased, since the IAASB now has reach a situation where the redrafting of all ISAs are to be finalised. This will allow FAS to develop Practice Notes to already redrafted ISAs, without having to review and rewrite them at a later stage.

Evaluation

In April 2008 an assessment meeting was held where some of the most experienced experts from the Reference Panel, together with IAASB technical staff and FAS Secretariat staff, considered the working procedures used by FAS, so far, to develop Practice Notes and contribute to the work of IAASB.

The experts agreed that the working procedures are relevant and appropriate but there was some concern about finalizing the expected work on time for the 2010 Congress. In addition the experts considered how to solicit a broader range of input at an earlier stage in the development process.

As a result, the subcommittee decided to approve the experts' recommendation to develop Practice Notes using the processes for Special Expert Teams¹⁾ only. The use of development procedures for Practice Note Task Forces will not be used any more. In addition, it was agreed that each team would benefit from input from a larger group (30-35) of back-office experts who would be asked to comment on an early draft of the Practice Note, before it was presented to FAS for approval for exposure to the wider INTOSAI community. This approach is now used successfully.

In addition to the regular self-assessments carried out by FAS, an external evaluation is currently being conducted by a consultant in accordance with World Bank requirements as one of FAS' financial contributors. The evaluation was initiated in September and a final report is expected to be delivered in January 2009.

Production of ISSAIs

The decision to use Special Expert Teams (SET) to produce Practice Notes to the ISAs where no INTOSAI expert was involved in the development process has led to a very productive year so far:

The Practice Note to ISA 320, was exposed in October 2007, and is expected to be approved by FAS in October 2008.

SET 2 with experts from Estonia, the European Court of Auditors and the United Kingdom met in June to develop Practice Notes to:

ISA 500 – Considering the Relevance and Reliability of Audit Evidence
ISA 560 – Subsequent Events
ISA 570 – Going Concern
ISA 580 – Written Representations.

SET 3 with experts from South Africa, Sweden and Norway met in August to develop Practice Notes to:

ISA 200 – Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with ISAs
ISA 210 – Agreeing the Terms of Audit Engagements
ISA 240 – Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements
ISA 250 – The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements.

SET 4 with experts from Pakistan, the US and Canada met in September to develop Practice Notes to:

ISA 600 – The Audit of Group Financial Statements (Including the Work of Other Auditors)
ISA 610 – The Auditor's Consideration of the Internal Audit Function.

¹⁾ The Special Expert Teams comprise of 3-5 experts who meet for 3-5 days to develop Practice Notes for several ISAs at a time.

SET 5 will meet in November to develop Practice Notes to ISA 700, 705, 706, 710 and 720

SET 6 and **7** will both meet in January 2009 to develop Practice Notes to ISA 501 and 530, and ISA 510, 520 and 540 respectively.

All the Practice Notes mentioned above will be exposed for comments between November 2008 and June 2009. All of the planned ISSAIs on financial audit are expected to be presented to the Governing Board in 2009 for approval.

Co-operation with the IAASB

The co-operation with the IAASB has been successful during this period. No new IAASB Task Forces have been established, with the participation of INTOSAI, however the interaction between the two organizations has continued on a high level, for instance by active participation by the INTOSAI Clarity Reference Group, which has provided guidance on public sector issues related to the redraft of the ISAs. INTOSAI experts are also participating in the work of a number of ongoing IAASB Task Forces, to revise or develop an ISA, and the related Practice Notes are also expected to be approved within the same time frame:

ISA 550 – Related Parties – Expert from United Kingdom

ISA 620 – Using the Work of an Auditor’s Expert – Expert from Brazil

ISA 265 – Communicating Deficiencies in Internal Control - Expert from Saudi Arabia

ISA 402 – Audit Considerations Relating to an Entity Using a Third Party Service Organization
– Expert from Norway

ISA 505 – External Confirmations – Expert from Canada.

Meetings

FAS met in London, United Kingdom in April and in Seoul, Republic of Korea in October. The CAS Chair and Secretariat were invited for a discussion on issues of common interest such as the organisation of INTOSAI’s standard setting work after 2010, the due process followed in the standard setting and the development of the Compliance Audit Standards, including how they are related to the Financial Audit Standards.

The next physical meeting will be hosted by the European Court of Auditors in April 2009. The subcommittee have scheduled several telephone conferences during the reminding period of 2008 and during 2009.

Additional developments

In its efforts to continue to strive for best-practice in the standard setting processes as well as all supporting processes, FAS has developed and approved a communication policy and plan as well as a due process.

FAS also continues to report regularly to its donors, INTOSAI members and other stakeholders through its website, the Quarterly Performance Reports as well as through contributions to each issue of the INTOSAI.

During 2008 there have been discussions within FAS as well as with the PSC Chair and Secretariat and the CAS Chair and Secretariat regarding standard setting in INTOSAI after 2010.

VI. PSC Performance Audit Subcommittee

(Ad item 4 on the draft agenda)

1. PAS achievements from October 2007 (Incosai) to September 2008

1.1. Mini-survey sent to Intosai Members

From November 2006 to February 2007 the Professional Standards Committee (PSC) conducted a survey on the needs and priorities of Supreme Audit Institutions in the future development of professional standards. The PAS analysed the results of this survey related to performance auditing and concluded that it did not bring enough information regarding the kind of additional guidance that the Intosai community needed.

In view of that, in December 2007 the PAS chair sent out a "mini-survey" to all SAIs who declared to the PSC that they were interested in new guidance on performance auditing. Later the "mini-survey" was also sent to the PAS members which were not in this group, that is, which did not declare to the PSC that they were interested in new standards and guidelines on performance auditing. PAS asked the respondents if they carried out performance audit, what performance auditing standards they applied, what phase of performance audit was seen as a priority to be addressed by new guidelines, if the new guidelines should focus on specific methods regarding data analysis and presentation, and what audit methods and techniques were considered priorities. The respondents were also asked to send the electronic versions of the standards used in their SAIs.

The results of the mini-survey were compiled, analysed and sent by PAS Chair to members, to be later discussed during the Second PAS Meeting.

1.2. The new PAS webpage

Assisted by the PSC Secretariat, the PAS Chair launched the PAS webpage (psc.rigsrevisionen.dk/composite-170.htm) in the beginning of May 2008. The new site of PAS, together with the PSC's and the other Subcommittees' webpages, is hosted by the SAI of Denmark. Links to all the documents sent by the "mini-survey" respondents were included in the PAS webpage. Besides technical papers, PAS main documents may also be consulted on the webpage: the Terms of Reference, work plans, minutes of the meetings, reports and presentations. A list of members and contact information are available too.

1.3. Second PAS Meeting

The 2nd Meeting was held in Brasília, Brazil, on May 28 and 29, 2008. The SAIs of Brazil, Australia, France, Mexico, Netherlands, Norway, Saudi Arabia and Sweden and the European Court of Auditors were the PAS members represented in the Meeting. Delegates from the SAI of Denmark, representing the Professional Standards Committee – PSC, the IDI and the World Bank participated as observers.

Some participants made presentations during the Meeting. The representatives of the PSC talked about the process of developing standards and guidelines and presented some best practices for elaborating standards. They also addressed the PSC objectives and plans for the near future. The Chair representative presented the results of the "mini-survey", and then turned the discussion to the activities to be developed to the Subcommittee after the Meeting, and showed the new webpage to the members, asking their participation in the improvement of it.

The delegate from France talked about the stage of the work carried out by the Intosai Programme Evaluation Working Group, chaired by the French SAI, the importance of programme evaluation for SAIs, and the future of the Working Group vis-à-vis the work of the PAS. The IDI representative talked about the IDI's strategy during 2001-2006, the current scenarios for performance audit in the different Intosai regions, the IDI strategy for 2007-2010 and the co-operation between IDI and Intosai working groups and committees. The SAI of Australia addressed some issues in performance auditing that are relevant in Australia and whose discussion may be important to other countries and to the PAS.

The debates during the Meeting led to decisions concerning the next steps of PAS work. The main decisions were stated in the Work Plan 2008-2010, approved during the Meeting.

It was decided that PAS would work in two new documents: Standards for performance audit extracted from current ISSAI 3000 and Guidance on how to establish a sustainable performance auditing function within a SAI. Two groups of PAS members were formed to develop these documents. The groups started to work right after the meeting, following a timetable established in the Work Plan. As the meeting members decided to propose a new strategy (the issuing of Performance Audit Standards) to the PSC, details regarding these activities can be found in the PAS Explanatory Memorandum to the PSC.

1.4. New SAIs Membership

After the 2nd Meeting, two SAIs – the Office of the Auditor General of Denmark and the Office of the Auditor General of South Africa – applied to become members of the Performance Audit Subcommittee. The SAI of Denmark was welcomed to the PAS in July 2008 and the SAI of South Africa, in August 2008.

The Subcommittee is currently constituted by seventeen members:

1. SAI of Brazil (Chair)
2. SAI of Australia
3. SAI of Canada
4. SAI of Denmark
5. SAI of France
6. SAI of Guyana
7. SAI of Kiribati
8. SAI of Mexico
9. SAI of Netherlands
10. SAI of Norway
11. SAI of Saudi Arabia
12. SAI of Slovenia
13. SAI of South Africa
14. SAI of Sweden
15. SAI of Tunisia
16. SAI of United Kingdom
17. European Court Of Auditors.

2. The PAS activities in 2008-2010

2.1. Based on the Incosai mandate, the PAS will in 2008-2010 (extracted from the PAS Work Plan)

- I. Use the results of the needs assessment related to performance audit for future capacity building interventions carried out by the IDI in 2007, in order to identify demands for training in the area, in the different regions of INTOSAI.
- II. With PSC guidance, promote interaction with international co-operation agencies in order to make them aware of PAS availability to provide advice on the importance of performance audit, and to help SAIs develop the necessary skills.
- III. Continue to develop the PAS website, including information and links to:
 - a) Seminars and events
 - b) Documents contributed by SAIs.
- IV. Prepare the following material for presentation to the PSC steering committee and the INTOSAI Governing Board in order to be approved by the INCOSAI 2010:
 - a) INTOSAI standards for performance audit extracted from ISSAI 3000.
 - b) Supplementing (new) ISSAI 3000 guidelines: guidance on how to establish a sustainable performance auditing function within an SAI.

The procedures and the timeline for activity 4 are established in the PAS Work Plan 2008-2010.

2.2. Next Subcommittee meeting

It was decided that the PAS meeting will be in Norway, in early April 2009.

A. Explanatory memorandum

PAS DRAFT MEMORANDUM TO THE PSC

During its last meeting in Brasilia, May 2008, the PAS decided to propose a new approach for supplementing ISSAI 3000 Guidelines. PAS will shift its short term strategy priorities – the issuing of new guidelines – towards a guidance to help meeting the needs of SAIs that still do not conduct performance audits on a regular and sustainable basis. The reasons are in the Subcommittee's minutes:

- ✓ Focus on SAIs that are considering commencing their first performance audits or which have limited performance auditing experience; and
- ✓ Reinforcement of the importance of SAIs having both an organisational and a technical capacity for performance auditing.

This decision was taken on the basis that the facts revealed by recent PSC and PAS surveys²⁾, that (i) the community of SAIs which conduct performance audits regularly and on a sustainable basis is still relatively small and, (ii) there is no clear pattern of demand for new

²⁾ For details on these survey results, please refer to the document "PAS mini-survey report".

guidelines regarding "specific applied qualitative and quantitative methods used on performance audits".

The PAS 2008 meeting members agreed that there is also a need to communicate the "essence" of performance audit standards in order to make it more accessible to the SAI community. Further there is a need to communicate the importance and relevance of contributing to improvement in the public sector and to monitor the use of public funds. By underlining the importance of making the guidelines more accessible, the PAS members acknowledge the fact that less than one third of the SAIs have introduced performance audit. As ISSAI 3000 guidelines covers both normative statements and advice, it was agreed that a compilation of these normative statements would be the best approach to presenting the essential elements of Performance Audit, which, should therefore be classified as an INTOSAI Level 3 document of Performance Audit Standards.

The aim of this explanatory memorandum is to present to the PSC the relevant arguments of PAS regarding (i) the proposal for a INTOSAI level 3 document related to Performance Auditing and, (ii) the issuing of new guidelines on establishing a sustainable performance auditing function.

Why an INTOSAI Performance Audit Standards document?

Comparisons between the practices of performance auditing in different countries show considerable variations depending on the diverse mandate, organisation and methods used by the SAIs. The legal, administrative and economic environment where the SAIs develop their competence can have a bearing on the nature of performance audits conducted and how they are carried out. The scope of the audit mandate will also influence the scope of the standards to be applied by the SAI.

Performance audit can be developed following different approaches, such as the result-oriented approach, which assesses whether pre-defined objectives have been achieved, and the problem-oriented approach, which verifies and analyses the causes of a particular problem. The perspective from which the audit is carried out can also vary.

The top-down perspective focuses on the requirements, intentions, objectives and expectations of the legislature and/or regulatory body. The performance audit starts with and accepts the intentions and decisions of the legislature, while examining whether possible shortcomings in the laws, regulations, and their implementation by the responsible government agency, have affected those intentions being met. The bottom-up perspective, on the other hand, focuses on the effects of the activity on the client and the larger community . Some performance audits synthesis these two views.

As performance audits deal with a multitude of perspectives and approaches covering the public sector, it would not be possible or appropriate to propose detailed common auditing standards to cover all situations. Accordingly, auditors are required to apply their own professional judgments to the diverse situations that arise in the course of performance auditing. Nevertheless, in order to develop a common understanding of what performance auditing entails, there are some guiding principles applicable at each stage of the audit cycle, namely planning, implementation, reporting, and follow-up.

The PAS suggests that these guiding principles should be documented as a Level 3 INTOSAI document, to be referred to as Performance Audit Standards. The proposed Level 3 document structure is presented in annex 1 to this memorandum.

Priority to guidance on how to establish a sustainable Performance Audit function within an SAI

Some INTOSAI members have extensive experience in performance auditing and others have little or none. Data from the Subcommittee's surveys suggested that the performance audit community consisted of less than one third of the 186 INTOSAI members. Probably less than 30 SAIs have well developed and stable approaches to this work. The caveat is that the only data that the Subcommittee had available were the surveys carried out either by the PSC and the PAS in 2007. Acknowledging the limitations of the data, the Subcommittee estimates that approximately 150 of INTOSAI's 186 members either do not performance audit or the latter is at a low level or beginning stage.

There could be several reasons why most SAIs have not been able to develop capacity for performance auditing. Inadequate financial resources, shortages of technical guidance or limited opportunities for training are some of the arguments put forward. Legal obstacles, lack of political interest and a public management mainly concerned with means (like resources and regulations) rather than ends (outputs and achievements) are other common explanations.

According to the PAS' survey there are demands for support and guidance in performance auditing, especially from SAIs with less experience of performance auditing. Most of the requests are focused on rather technical matters and methods.

The Performance Audit Subcommittee has concluded that technical guidance may not be the most complete support in a situation where a SAI and its environment has no or limited experience of performance auditing. At the same time ISSAI 3000 is mainly aimed at assisting somewhat more experienced SAIs in developing their own standards and guidelines.

Most SAIs with long experience in the field have published standards and guidelines of a diverse and also of a technical nature. One of the tasks included in the current PAS work plan, which will be presented to the PSC in a separate document, is the gathering of all available documents in the PAS website.

For the less experienced SAIs, the Subcommittee has emphasised that it can be equally important to provide strategic alongside technical support. A less experienced SAI may first need guidance on how to promote and introduce a sustainable performance audit function. As many SAIs have stated during the last PAS meeting, just introducing performance auditing may take ten years – and there is no real guidance on how to address this process. Based on these considerations, the Subcommittee has decided to prepare guidance on how to establish a sustainable performance audit function.

2.1. Guidelines focus and content

A Subcommittee objective in addressing what is necessary for sustainable performance auditing is to promote this field of auditing. This would occur if, in the medium term, more SAIs commenced or developed their performance auditing, thereby increasing the proportion of INTOSAI members involved in this activity to more than the current approximately one third of INTOSAI members.

The idea is to prepare a guide that covers both strategic and practical issues to be handled in the early stages of introducing performance auditing. The guideline is aimed to assist senior management on strategic issues, like sensitizing politicians, media and others to the relevance of performance auditing, as well as raising the awareness on operational issues, like: how to handle managerial and organisational issues, how to recruit performance auditors and how to get going and to maintain momentum.

That organisational capacity involves several factors including:

- ✓ A clear purpose for performance auditing;
- ✓ The support of the legislature and government;
- ✓ A legal foundation;
- ✓ Financial resources;
- ✓ Human resources, including recruitment and training; and
- ✓ Public acceptance of the role alongside compliance and financial auditing.

A SAI wishing to commence or increase its performance auditing must, in addition, be able to manage these factors to realize the potential of performance auditing, both internally and externally. In light of this, the Subcommittee will produce a set of guidelines to address each of the above factors. The proposed structure for the document to be presented is outlined in annex 2 to this memorandum.

Conclusion

The PAS suggests that the Performance Audit guiding principles should be documented as a Level 3 INTOSAI document, to be referred as Performance Audit Standards. The PAS has already prepared a first exposure draft document for these Standards, which is now being subjected to final PAS members comments.

The PAS group will also advice a review of the ISSAI 3000 standards in light of the new auditing standards currently being developed.

Regarding new guidelines for a sustainable performance audit function, the PAS has prepared a draft table of contents for the document, as well as a work plan in line with the timetable required by PSC for its analysis and approval.

VII. PSC Compliance Audit Subcommittee **(Ad item 4 on the draft agenda)**

A The achievements of CAS 2004-2008

27. The Working Group on Compliance Audit was established at the Auditing Standards Committee (ASC) meeting in Budapest 10 October 2004, with the overall objective to develop INTOSAI guidelines for compliance audit to be presented at INCOSAI 2007. The Working Group was renamed Compliance Audit Subcommittee (CAS) after establishment of the Professional Standards Committee. According to the Terms of Reference agreed upon at the Budapest meeting, CAS should aim to:

- Provide an overview of the different mandates, etc., SAIs have regarding compliance audits;
- Elaborate on and clarify the term "compliance audit";
- Give practical guidance on how compliance audit should be planned, executed and reported.

28. An overview of different mandates, etc., was presented at the ASC meeting in Oslo in September 2005, and used as input to the further work. An Issues Paper elaborating on the term "compliance audit" and discussing the overall approach to compliance audit guidelines was presented and approved by ASC at the meeting.

29. CAS presented a draft of compliance audit guidelines dealing with compliance audit as an integral part of the audit of financial statements to the PSC Steering Committee meeting in Bahrain 23-24 April 2007. The meeting decided that the draft should form part of a complete set of guidelines for compliance audit, consisting of:

- ISSAI 4000: A general introduction to guidelines on compliance audit – presenting on overall view on compliance audit.
- ISSAI 4100: Compliance audit guidelines related to audit of financial statements.
- ISSAI 4200: Further guidance on compliance audit – e.g. as part of performance audit or as a separate audit type.

30. The Steering Committee supported that an Exposure Draft should be submitted to all INTOSAI members, with a view to presenting a final draft at INCOSAI in Mexico.

31. CAS got some 40 answers from SAIs and other interested parties to the request for comments to the Exposure Draft. In order to try to accommodate the various points of view, CAS presented the guidelines as a draft to INCOSAI 2007, and subsequently adjusted the draft on the basis of the exposure comments.

32. In accordance with the adjusted Work Plan for 2008, CAS has developed the following drafts to be presented to the PSC Steering Committee meeting in October 2008:

- ISSAI 4000 General Introduction;
- ISSAI 4100 Compliance Audit Guidelines for Audits Performed Separately from the Audit of Financial Statements;

- ISSAI 4200 Compliance Audit Related to the Audit of Financial Statements (a revised draft of the previous ISSAI 4100 that was exposed prior to INCOSAI 2007 and now renumbered).

In addition a first draft of a possible ISSAI 4300, containing specificities of compliance audit in a court of accounts environment, will be discussed at the CAS meeting in September 2008.

B CAS 2008-2010

33. The purpose of the subcommittee in 2008-2010 is to finalize the development of the INTOSAI Compliance Audit Guidelines (ISSAI 4000-4999). The guidelines shall give practical guidance on how compliance audit should be planned, executed and reported.

The subcommittee will in 2008-2010:

- Expose for comment a complete set of compliance audit guidelines to the INTOSAI community after presenting the documents to the PSC in October 2008 and the Governing Board in November 2008. The complete set will consist of:
 - ISSAIs 4000 and 4100 (and possibly 4300) for first time exposure, and
 - ISSAI 4200 (previously ISSAI 4100) for re-exposure.
- Subsequently present a complete set of Compliance Audit Guidelines for approval to PSC and GB.
- Present the complete set of guidelines at INCOSAI 2010.

VIII. PSC Subcommittee on Internal Control Standards **(Ad item 4 on the draft agenda)**

This is a survey of the activities of the Subcommittee on Internal Control Standards since the 19th INCOSAI.

The Subcommittee's activities during 2008 are aimed at implementing the work plan 2007-2010 approved by the 19th INCOSAI.

On 21 and 22 April 2008 a meeting of the INTOSAI PSC Subcommittee on Internal Control Standards' task force took place in Brussels. Delegates of the SAIs of Bangladesh, Hungary, Lithuania, the Netherlands, Romania, the Russian Federation, South Africa, Spain, the Sultanate of Oman, Ukraine, the United Kingdom, the USA and Belgium (chair) examined how the subcommittee's work plan, approved at the 19th INCOSAI, could be implemented. A delegate of the Institute of Internal Auditors (IIA), which concluded a Memorandum of Understanding (MoU) with INTOSAI in 2007, also attended the meeting.

I am pleased to give you a brief account of the task force proceedings.

1. Within the frame of the MoU concluded with the IIA, each subcommittee member was invited in 2007 to put forward topics for further elaboration. The answers made it clear that there was much interest in two items in particular: the relation between SAIs and internal auditors and the latter's independence in the public sector. Consequently the chair selected these topics for further development.

The task force reviewed the draft, drawn up by the Belgian Court of Audit, of a text relating to the collaboration between SAIs and internal auditors as well as the outline, drawn up by the IIA, of a text about the internal auditor's independence in the public sector. Both drafts have been amended in accordance with the remarks formulated by task force members. In September 2008 the papers were submitted to all subcommittee members for comment. The purpose is to include both items in INTOSAI's framework of professional standards (INTOSAI Guidance for Good Governance, INTOSAI GOV). The target is to have the documents approved at the next INTOSAI Congress (2010).

2. The task force was of the opinion that the electronic platform for internal control standards and guidance on good governance should be made operational as soon as possible (preferably before the meeting of the Steering Committee of the Professional Standards Committee, Beijing, October 2008). To this end a working group was created which includes the SAIs of South Africa, the USA, and the Netherlands, the latter being the lead SAI. The working group presented its final proposal to the chair before submitting the e-platform to running tests
3. The task force also endorsed the 2008 action plan for collaboration with the IIA. The terms of this plan are as follows :

The IIA and the INTOSAI subcommittee on internal control standards have agreed to collaborate on the following actions in 2008:

The IIA and the INTOSAI subcommittee will work out joint papers on the independence of an internal auditor in the public sector and on the interaction between external and internal auditors in the public sector. The IIA will focus on developing the first paper and the INTOSAI subcommittee will focus on developing the second paper. These papers will be circulated in advance for review by both the INTOSAI subcommittee and the IIA. These papers will be submitted as INTOSAI documents to be included in the INTOSAI's framework of Professional Standards as part of the INTOSAI Guidance of good governance (INTOSAI GOV). This implies they will be subject to endorsement by the 20th INCOSAI in 2010.

The IIA and the INTOSAI subcommittee will work together to prepare the e-platform of internal control tools and develop aspects of good governance.

The IIA and INTOSAI are committed to informing each other about the latest developments in the field of internal control.

4. Lastly the task force suggested, in implementation of the work plan, to open lines of communication with COSO as soon as possible. It was agreed that the chair would at first leave establishing formal contacts with COSO to the Professional Standards Committee's chair. As a matter of fact, the task force was informed that COSO is favourable to contacts with INTOSAI.

The members of the subcommittee were asked to approve the decisions of the task force.

About the activities which will be undertaken in 2009 the subcommittee is of course liable to continue to execute the work plan which implies

- the finishing of the two papers mentioned above
- making operational the e-platform
- the continuation of the collaboration with the IIA
- establishing relations with COSO
- the continuation of the marketing of the subcommittee's products

The subcommittee members were also asked to propose possible initiatives.

IX. PSC Subcommittee on Accounting and Reporting

(Ad item 5 on the draft agenda)

Mandate – The Subcommittee on Accounting and Reporting 2007-2010 (from the PSC 2007 Progress Report)

The purpose of the subcommittee in 2007-2010 is to observe and participate in the accounting standard-setting meetings of IFAC's International Public Sector Accounting Standards Board (IPSASB), formally the Public Sector Committee.

The Subcommittee will in 2007-2010:

- Continue to participate in IPSASB public sector standard-setting activities,
- Prepare periodic reports for the INTOSAI membership about current and planned activities,
- Encourage INTOSAI members to provide comments directly to the IPSASB on its Exposure Drafts and similar documents,
- Facilitate information exchange and knowledge sharing among SAIs.

Also, as the IPSASB considers the reporting of new types of information, such as long-term fiscal sustainability reporting and disclosure of future social benefit cash transfers, the Subcommittee will work closely with the other members of the Professional Standards Committee to proactively address any related financial auditing issues

Achievements of the Subcommittee on Accounting and Reporting 2007-2008

- The Chair of the Subcommittee (Sheila Fraser – Canada) became a member of IPSASB on January 1, 2008.
- The Subcommittee will update the PSC on IPSASB activities at the October 21-22 PSC meetings in Beijing.
- The Subcommittee will present its 2008-2010 Workplan at the October 21-22 PSC meetings in Beijing.

WORK PLAN 2008-2010
For the INTOSAI Subcommittee on Accounting and Reporting
Beijing – October 2008

PURPOSE OF WORK PLAN

1. To agree on the products that the Subcommittee should deliver in time for INCOSAI XX in Johannesburg, November 2010.
2. To agree on a strategy, work plan and timetable to deliver these products.

CURRENT MANDATE OF SUBCOMMITTEE

To study issues concerning public sector accounting and financial reporting, including the following tasks:

- Continue to observe and participate in the IFAC International Public Sector Accounting Standards Board's (IPSASB) public sector accounting standards setting activities;
- Prepare periodic reports for the INTOSAI membership about current and planned IPSASB activities; and
- Facilitate information exchange and knowledge sharing among SAIs.

PROPOSED STRATEGY

In past years there has been minimal activity in this subcommittee. In order to ensure that future activity is appropriate for member needs, we are proposing the following strategy:

1. Survey INTOSAI members to identify the accounting standards that are in place in their respective countries as well as their public sector accounting and reporting information needs and prepare a paper to organize subcommittee activities to address those needs.
2. Prepare a paper outlining the importance of independent accounting standard setters.
3. Continue to update INTOSAI members on IPSASB activities through periodic updates on the INTOSAI Journal.

PROPOSED PRODUCTS

1. Paper – how to organize subcommittee activities to address member public sector accounting and reporting information needs expressed in the survey.
2. Paper – the importance of an independent standard setter.

PROPOSED WORK PLAN AND TIMETABLE

- Circulate draft work plan to subcommittee members for comments (July-August 2008).
- Present work plan for approval at PSC Steering Committee in Beijing (October 21-23, 2008)
- Survey INTOSAI members (Winter 2008-09) to clarify the following:
 - Accounting standards used by each member;
 - Whether these standards are established by an independent standard setter;
 - Whether the member country intends to move to international accounting standards and if so, when;
 - The information needs of each member on public sector accounting and reporting standards and how the subcommittee can address these needs;
 - Preferences for sharing of this information – face-to-face meetings, information sent electronically, other options?
- Draft paper on the importance of an independent standard setter (Autumn 2009).
- Draft paper on how to organize subcommittee activities to address member information needs expressed in the survey (Autumn 2009).
- Circulate draft papers to subcommittee members (Winter 2009-2010) for comment on
 - importance of an independent standard setter; and
 - how to organize subcommittee activities.
- Present papers at PSC Steering Committee in Denmark (Spring 2010)
- Present papers to INTOSAI Governing Board (November 2010).
- Present papers to INCOSAI XX (November 2010).

X. Motion

The Chair of the INTOSAI professional Standards Committee (PSC) submit this progress report to the INTOSAI Governing Board for approval and moves that the Governing Board:

Approve this progress report, and thereby also approve:

- the draft proposal on the organisation of the PSC beyond 2010 (annex 1)
- the draft proposal on the permanent structure of the FAS Secretariat (annex 1)
- the draft ISSAI 20 and 21 (annex 2)
- the draft terms of reference for the project on Audit Quality Control (text above)
- the explanatory memorandum of the Performance Audit Subcommittee, including the draft content of the new ISSAI 500 and ISSAI 3100 (text above and annex 2)
- the draft ISSAI 4000, ISSAI 4100 and ISSAI 4200 (annex 2)
- the updated work plan in annex 1 (annex 3).

Annex 1c - Performance Auditing Standards Table of Contents

1. Introduction
2. Performance Auditing Standards
 - 2.1. Definition
 - 2.2. Audit objective
 - 2.3. Programming of audit tasks
 - 2.4. The audit process
 - 2.4.1. Planning an audit task
 - 2.4.2. Scope of the audit
 - 2.4.3. Performing audit procedures
 - 2.4.4. The nature of audit evidence
 - 2.4.5. Reporting
 - 2.4.6. Follow-up of audit results
 - 2.6. Quality control

Annex 1d: Guidelines for a Sustainable Performance Audit Function

Table of Contents

1. Foreword
By the Chair of PAS
A. Introduction
2. Why Are These Guidelines Necessary?
What is the purpose of this document
Two Main Sections – The first is Major Challenges of Introducing Performance Auditing, and the second is Steps to Consider – How to Get Started
Why performance audit (PA)
The importance and character of performance auditing
<ul style="list-style-type: none"> • Separate advice for performance auditing necessary because of its difference from financial auditing
Who is most likely to benefit from this document
<ul style="list-style-type: none"> • Acknowledge that some SAIs are not allowed to examine government policies and programmes. • Performance auditing includes more than a focus on agencies' management • Some SAIs do not focus on agencies, but on government policies and reforms
How can this document be used
B. What Are The Major Challenges Of Introducing Performance Auditing?
<ul style="list-style-type: none"> • What are the challenges of introducing performance auditing? • Why have some SAIs developed performance auditing? • Why have other SAIs acted differently? What have been the major obstacles for developing a sustainable performance audit function?
C. How To Deal With The Challenges Of Introducing Performance Auditing?
<ul style="list-style-type: none"> • Introduction
3. Defining a Clear Purpose for Performance Auditing
To report on various aspects of public administration and government
To contribute to improvement and reform in public administration and government
<ul style="list-style-type: none"> • Parliamentary mechanism to consider reports, otherwise public sector reform less likely • Keeping audited agencies on side and receptive • Clarifying whether performance auditing is or is not a consultancy to audited agencies
Integrating PA with the overall strategy of the SAI – Positioning performance audit in the SAI's strategic plan.
Creating awareness among SAI staff regarding concept of PA and its importance
4. Why Is It Necessary to have the Support of the Legislature, Government, Public and Other Key Stakeholders? – Selling the Message
Why support is important
<ul style="list-style-type: none"> • What happens when only the legislature of government supports PA?
Communication strategy
Ideally, the principal client is the legislature and the secondary client includes government
<ul style="list-style-type: none"> • Practical implications flowing from good/bad/indifferent relationships with stakeholders • Communication with politicians, media, NGOs, universities, and others can gain support for introducing performance auditing

<ul style="list-style-type: none"> • It can take a number of years to introduce performance auditing. This is why the support of the legislature and government is necessary
<ul style="list-style-type: none"> • Approaches to gaining government/agency commitment to implementing recommendations and following up results
The public image of public sector auditing. It is about sound public administration as well as identifying non-compliance
Performance audit concerns: any relation with fraud, other forms of corruption and financial controls?
Strategy to inform the public about the innovation of performance auditing
Creating, among the stakeholders, a need for PA
Obtaining financial resources
Strengthening access to auditee information

5. A Legal Foundation – Is There a Legal Basis for Performance Auditing?

<ul style="list-style-type: none"> • Ensuring an adequate legal basis for performance auditing
The existence of a legal foundation will increase the likelihood that performance auditing will continue beyond one or two years
The nature of the legal foundation is another determinant of the role of performance auditing
A sound legal foundation for the SAI will also outline how the latter can select topics for audit
<ul style="list-style-type: none"> • Inadvisable for audit law to be the main instrument of public sector reform
Why support is important – the importance of clarity of mandate
<ul style="list-style-type: none"> • Components of a legal mandate- independence and powers of discretion, to ensure control of reports, protecting the auditor from retribution

D. Steps To Consider – How To Get Started

<ul style="list-style-type: none"> • Introduction
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6. Financial Resources – Can the SAI Afford Performance Auditing?

<ul style="list-style-type: none"> • Estimating the first budgets
SAIs must decide how to use their marginal dollar
<ul style="list-style-type: none"> • Challenges facing small SAIs – understaffing, lack of independence, unclear performance audit mandates, scarce financial resources

7. How Does the SAI Employ the Right Staff for Performance Auditing?

<ul style="list-style-type: none"> • Managing human resources to enable performance auditing
<ul style="list-style-type: none"> • Initial staff likely to be compliance/financial auditors – implications for the objectives of the first performance audits.
<ul style="list-style-type: none"> • It can be more difficult to turn a financial auditor into a performance auditor than to turn a bright social scientist into a performance auditor.
Required skills and competencies for different levels of staff in the PA function
<ul style="list-style-type: none"> • Without recruiting people with a different competence from financial and compliance auditors, the answers will be the same
Roles and responsibilities of each level of PA staff
How to recruit and train staff to conduct performance audits
Platform for initial recruitment
<ul style="list-style-type: none"> • Usefulness of professional and personal qualifications
Organise support teams
Need for trainers and manual
Strategies for professional staff development of PA staff (e.g., training, on-the-job training, secondments in and out)

8. What Should a Performance Audit Policy Include?

<ul style="list-style-type: none"> • Advisable to wait a while before developing a policy
<ul style="list-style-type: none"> • Policy document could include:
Purpose of the policy
Organisational structure of the PA function: EG, how to structure PA (specialisation or integration with financial and compliance auditing.
<ul style="list-style-type: none"> • Without a separate unit/function, it is unlikely that performance auditing will emerge)
<ul style="list-style-type: none"> • Workplace design. Should financial and performance auditors reviewing the same agencies sit together? Or is the question unimportant?
Reporting lines within the function. Importance of top management's involvement and support. Performance auditing may require another kind of leadership from that of other auditing in order to foster legislature and government agency use of audit reports
Proportion of PAs vis-à-vis other audits
Criteria for selection of PA topics
Ethical requirements of PA staff
Performance reporting requirements by the PA function
<ul style="list-style-type: none"> • Building a quality assurance capability
<ul style="list-style-type: none"> • How to develop guides to good public sector management to supplement audit reports

9. How Can a Performance Audit Manual and Toolkits Help the SAI?

Strategies for developing the manual, including learning from other SAIs
<ul style="list-style-type: none"> • Timing of development of a manual. Consider conducting a small number of performance audits before preparing a manual
Suggested contents of the manual
Suggested areas for toolkits
<ul style="list-style-type: none"> • Leadership from an experienced investigator increases the likelihood that guidelines and standards will be implemented and understood

10. How Can Pilot Performance Audits Help the SAI?

To test methodologies and tools
To obtain quick wins
<ul style="list-style-type: none"> • Focus on certain themes, such as processing time, monitoring and management issues.

11. What is Important about Performance Audit Reporting?

Importance of performance reporting
Suggested performance measures for the PA function, linking the measures to the SAI's purposes for performance auditing
Frequency of performance reporting
Pros and cons of report marketing
Media contact policy within the SAI's overall media policy
Follow up on performance reports
(Section 11 above may overlap with the revision of INTOSAI's current PA guidelines
<ul style="list-style-type: none"> • Support for the production of reports

Checklist

Annex 2:

The PSC work plan 2007-2010 – updated October 2008

Work plan for PSC 2007-2010					
ISSAI			GB 2008	GB 2009	INCOSAI
General (Steering Committee)					
1	-	Promoting standards and guidelines via www.issa.org			(Decision on adjustments – if any)
2	-	Permanent organisation of the continuous updating of ISSAIs	Principal decision by GB	Final decision by GB	Endorsement
Transparency and accountability					
3	ISSAI 20	Principles on transparency and accountability of Supreme Audit Institutions	Exposure draft	Approval by GB	Endorsement
Quality control					
4	[ISSAI 40-49]	Establish a project to: <ul style="list-style-type: none"> consider the possibility of providing guidance for SAIs on quality control based on IAASB’s ISQCs and other relevant materials widely used by SAIs, upon approval of the Governing Board extend the cooperation with IAASB established on financial auditing guidelines to also cover guidelines on quality control of other auditing work performed by SAIs, identify the needs of the SAIs on specific guidance for the public sector and develop the appropriate guidance 	Approval of project terms of reference	Consideration of key principles in draft guidelines	Endorsement of any new guidelines
Financial Audit Guidelines Subcommittee (FAS)					
5	ISSAI 1000	Implementation guidelines on Financial Auditing (Introduction)		Exposure draft	Endorsement
6	ISSAI 1001	Bridge between INTOSAI Auditing Standards and International Standards of Auditing (ISAs)		Exposure Draft	Endorsement
7	ISSAI 1002	General considerations when applying International standards of Auditing (ISAs) in Public Sector		Exposure Draft	Endorsement
8	ISSAI 1003	Glossary to Financial Audit Guidelines		Exposure Draft	Endorsement
9	ISSAI 1100	International Framework for Assurance Engagements		Approval by GB	Endorsement
10	ISSAI 1200	Objective and General Principles Governing an Audit of Financial Statements		Approval by GB	Endorsement
11	ISSAI 1210	Terms of an Engagement		Approval by GB	Endorsement
12	ISSAI 1240	The Auditor’s Responsibility Relating to Fraud in an Audit of Financial Statements		Approval by GB	Endorsement

Work plan for PSC 2007-2010					
	ISSAI		GB 2008	GB 2009	INCOSAI
13	ISSAI 1250	Considerations of Laws and regulations in an Audit of Financial Statements		Approval by GB	Endorsement
14	ISSAI 1265	The Auditors response to Material Weaknesses in Internal Control		Approval by GB	Endorsement
15	ISSAI 1320	Materiality in Planning and Performing an Audit		Approval by GB	
16	ISSAI 1402	Audit Considerations Relating to Entities Using Service Organizations		Approval by GB	Endorsement
17	ISSAI 1500	Audit Evidence		Approval by GB	Endorsement
18	ISSAI 1501	Audit Evidence – Additional Considerations for Specific Items		Approval by GB	Endorsement
19	ISSAI 1505	External Confirmations		Approval by GB	Endorsement
20	ISSAI 1510	Initial Engagements – Opening Balances		Approval by GB	Endorsement
21	ISSAI 1520	Analytical Procedures		Approval by GB	Endorsement
22	ISSAI 1530	Audit Sampling and Other Means of Testing		Approval by GB	Endorsement
23	ISSAI 1540	Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures		Approval by GB	Endorsement
24	ISSAI 1550	Related Parties		Approval by GB	Endorsement
25	ISSAI 1560	Subsequent Events		Approval by GB	Endorsement
26	ISSAI 1570	Going Concern		Approval by GB	Endorsement
27	ISSAI 1580	Written Representations		Approval by GB	Endorsement
28	ISSAI 1600	Special Considerations – Audits of Group Financial Statements (Including the Work of Other Auditors)		Approval by GB	Endorsement
29	ISSAI 1610	The Auditor’s Consideration of the Internal Audit Function		Approval by GB	Endorsement
30	ISSAI 1620	Using the Work of an Expert		Approval by GB	Endorsement
31	ISSAI 1700	The Independent Auditor’s Report on General Purpose Financial Statements		Approval by GB	Endorsement
32	ISSAI 1705	Modifications to the Opinion in the Independent Auditor’s Report		Approval by GB	Endorsement
33	ISSAI 1706	Emphasis of Matter paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s report		Approval by GB	Endorsement
34	ISSAI 1710	Comparatives		Approval by GB	Endorsement
35	ISSAI 1720	Other Information in Documents Containing Audited Financial Statements		Approval by GB	Endorsement
Performance Audit Subcommittee					
36	ISSAI 500(?)	Develop standards for performance audit extracted from current ISSAI 3000	Table of contents	Exposure draft	Endorsement
37	ISSAI 3100	Guidance on how to establish a sustainable performance auditing function within an SAI	Table of contents	Exposure draft	Endorsement

Work plan for PSC 2007-2010					
ISSAI			GB 2008	GB 2009	INCOSAI
Compliance Audit Subcommittee					
38	ISSAI 4000	A general introduction to guidelines on compliance audit	Exposure Draft		Endorsement
39	ISSAI 4100	Compliance audit guidelines related to the audit of financial statements	Exposure Draft		Endorsement
40	ISSAI 4200	Further guidance on the broader scope of compliance audit, for example as a part of performance audit or as a separate audit type	Exposure Draft		Endorsement
Subcommittee on Internal Control Standards					
41	INTOSAI GOV 9200	Internal Auditor Independence in the Public Sector		Exposure Draft	Endorsement
42	INTOSAI GOV 9300	Co-operation and co-ordination between internal auditors and SAIs in the public sector		Exposure Draft	Endorsement
43		<ul style="list-style-type: none"> • Create an electronic platform to make the internal control tools and guidance on good governance available to all SAIs • Continue the work with guidance on internal control as foreseen in the MoU with IIA, and initiate lines of communication with COSO (in the context of PSC's dual approach) • Support marketing and implementation of the guidelines 	(Draft outline) Draft action plan (report)	Draft outline (report) (report)	(report) (report) (report)
Subcommittee on Accounting and Reporting					
44		- Participation in IPSASB and reporting to INTOSAI			(report)